

September 7, 1999

Ex Parte

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 Twelfth Street, S.W.
Room TW-A325
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: WT Docket No. 98-205 (CMRS Spectrum Aggregation Limits)

Dear Ms. Salas:

Today PCIA President Jay Kitchen and staff members Mary Madigan-Jones and Brent Weingardt met with Commissioners Tristani and Ness as well as their staff members Adam Krinsky and Mark Schneider. They also met with Ari Fitzgerald of the Chairman's office. PCIA discussed the substance of its comments and reply comments and discussed new developments in the PCS and cellular markets. PCIA provided FCC officials with two recent studies commissioned by PCIA to determine the state of competition in the wireless voice market and the impact of PCS introduction on consumer prices. PCIA also provided them with a PCIA document entitled "PCIA Supports the spectrum Cap." These materials are attached.

Personal
Communications
Industry
Association

PCIA Supports a Stringent Waiver Standard for All Markets

PCIA also discussed the appropriateness of granting individual waivers of the cap and the value of raising the cap in rural markets. PCIA believes that the Commission can handle these situations by establishing one stringent waiver standard, not by modifying the cap in rural markets. PCIA shares the FCC's interest in ensuring that the cap is not an inadvertent barrier to those carriers that wish to deploy advanced broadband services, but are unable to do so without exceeding the cap. As PCIA stated in its comments, the Commission should consider a waiver when presented with the appropriate set of circumstances demonstrating that the spectrum cap is "preventing a particular market from receiving a particular innovation or service... However, any waivers granted should be granted upon a demonstration of public need, not the mere desires of a particular competitor to acquire additional spectrum." A waiver would place the burden on the requester to provide specific factual reasons as to why it cannot provide a particular service or serve a particular area without exceeding the cap. The requester should also make a commitment to use the spectrum for the particular service, or in the case of rural areas, to expand service to currently unserved areas.

PCIA is concerned that if the waiver process is not carefully managed, the cap could be undermined by blanket grants that will encourage the consolidation of spectrum holdings within markets instead of encouraging the buildout of independent wireless networks.

The Telecompetition Study Shows a Still-Concentrated Wireless Voice Market

In PCIA's Reply Comments filed with the Commission on February 10, 1999, we included a market data report prepared by Telecompetition, Inc. showing estimates of PCS, SMR and cellular subscribers in the Top 200 MSAs as well as an estimate of PCS market share in relation to cellular and SMR subscribers (See Attachment A of the Reply Comments). For the purpose of refreshing the record and providing the Commission with the most up-to-date information possible, PCIA requested Telecompetition, Inc. to update its report.

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This newest report shows the continuing positive trends in the growth of PCS market share. Nevertheless, the mobile two-way voice market remains extremely concentrated even in the Top 20 MSAs, where the fastest PCS rollout can be expected to occur. In smaller markets, PCS is still in the process of building out facilities and then market share. We believe that the Commission's spectrum cap has been a catalyst for the rollout of independent, facilities-based PCS networks, but that this process is by no means complete. The Telecompetition estimate indicates that cellular's share is still approximately 80 percent in these top 20 markets, and 88 percent overall.

In February, almost 50 percent of the top 200 MSA's consumers did not yet have an alternative to cellular. Today, in 43 percent of the top 200 markets consumers still do not have a choice. In February, combined PCS subscribership did not exceed 25 percent in any top 200 MSA. Today, PCS subscribership exceeds 25 percent in only 11 percent of markets (22/200 markets).

Based upon the Telecompetition estimates, in February PCS operators had an average 7.6 percent market share in the top 200 MSAs. Today, the average market share has increased to 12 percent. PCIA notes here that Telecompetition's methodology typically overestimates PCS market share by factoring in a significant bump in PCS market share when the carrier begins operations in any given market.

PCS carriers are clearly continuing to build out independent networks, but, as this data indicates, it takes some time to build up a critical mass of customers. This is particularly true where the embedded base developed by the two cellular incumbents in each MSA –approaching 100 percent market share before the Commission authorized PCS – is so large. Many PCS carriers are relatively new licensees and have yet to enter the marketplace at all, but can be expected to do so in the next few years consistent with the Commission's construction and operation deadlines.

The Yankee Group Study Demonstrates the Positive Impact on Prices of New Mobile Competitors

PCIA sought to quantify the impact of the introduction of PCS services on the price of wireless telephone service in major U.S. markets. PCIA retained the Yankee Group to conduct this study because of Yankee's established expertise in tracking mobile telephone pricing based on per minute of use, which Yankee refers to and explains in its report as a Bundled Price per Minute (BPPM). We believe that the use of Yankee Group's BPPM model provides a realistic view of what the typical consumer has experienced in these markets as PCS has come to market.

The Yankee Group study quantitatively demonstrates the positive pricing trends to which PCIA, among others, have linked to the introduction of multiple, independent PCS networks:

- The introduction of the first PCS service in a market has typically caused a drop in overall wireless voice prices on a BPPM basis and the downward trend then continues with the introduction of additional PCS service providers.
 - For example, in New York City, the BPPM dropped 18% with the entry of the first PCS carrier and fell a further 30% when the second carrier launched service. In Los Angeles, prices dropped 17% when the first PCS carrier entered the market and another 46% with the entry of the second PCS carrier.
 - The average BPPM in the Top 25 U.S. markets dropped 10% after the entry of the first PCS service and a further 25% after the launch of the second PCS service.

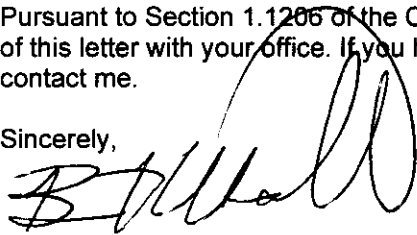
- Cellular prices have significantly decreased due to the launch of PCS competition.
 - For example, in New York City, digital cellular prices fell by 52% with the introduction of PCS; in Los Angeles, digital cellular prices fell by 52% while analog cellular fell by 47%.
 - For the Top 25 U.S. markets, digital cellular prices have fallen by an average of 38% and analog prices by an average of 12% on a BPPM basis since the introduction of PCS.
- Overall wireless prices will continue to fall as independent PCS operators gain market share.
- The more wireless players in a market, the lower the average price for all wireless services in that market.
- As wireless prices have fallen, more and more Americans have been able to afford the wireless alternative, with PCS driving a major part of the growth in wireless penetration.

The Yankee Group study reflects extremely positive news for wireless consumers. And these positive pricing trends come at a time when PCS is just beginning to rollout in many major U.S. markets and is yet unavailable in many mid-sized markets. That PCS is still in its early stages of rollout is clear from the Telecompetition Inc. Report recently submitted for the record by PCIA.

We believe that the Commission's spectrum cap has been the catalyst for the rollout of independent, facilities-based PCS networks, and the significant decrease in wireless prices that consumers have experienced. PCS providers have also been at the forefront of introducing digital service, bundled service offerings such as paging and voice mail and innovative pricing plans such as first incoming minute free and "bucket" pricing plans. The Commission should not short-circuit these positive trends by permitting a wave of consolidations at this early stage of mobile voice competition. The spectrum cap is having its desired impact and should be retained until the Commission sees further progress in these trends and determines how it will ensure that customers continue to have real choice.

Pursuant to Section 1.1206 of the Commission's Rules, PCIA is filing one original and one copy of this letter with your office. If you have any questions regarding this filing, please feel free to contact me.

Sincerely,



Brent H. Weingardt Vice President, Government Relations
Personal Communications Industry Association

cc: Commissioner Tristani
Commissioner Ness
Mark Schneider
Adam Krinsky
Ari Fitzgerald
Tom Sugrue
Pieter van Leeuwen
David Krech
Walter Strack
David Furth
Howard A. Shelanski

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Federal Communications Commission
Office of Secretary

Order # 082352



MARKET DATA REPORT

for
PCIA

August 23, 1999

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About Telecompetition Inc.

Founded in 1996, Telecompetition, Inc. is committed to software and process development to produce reliable, trackable industry market data of metropolitan areas and finer granularity across a wide range of products. We provide consistency with global, national research and forecasts provided by well respected telecommunications research and other industry analysts.

About the ATIVA Research Tools®

We achieve this with our flagship system called ATIVA Research Tools® (patent pending). These tools perform sophisticated computations on both demand and supply side external industry data to produce historic and forecasted revenues and other market size information.

ATIVA Research Tools® uses sophisticated algorithms to calculate product revenues to smaller geographic areas. Factors considered in the calculations include demographics, relative use by household income, age, industry characteristics, workforce population, propensity-to-buy profiles, deployment / service availability and other current market and technology drivers.

With ATIVA Research Tools®, Telecompetition applies the rigor of a proprietary, adaptive forecasting technology with the expertise of market analysts to provide reliable, consistent market information at the state, BTA/MTA, county or metropolitan level. International extensions of the capabilities are under development.

Other Telecompetition® Products

Telecompetition® products include a number of geographic forecasts on disk for other wireless and wireline telecommunications services such as PCS, Cellular, Paging, SMR/ESMR, long distance and local access. Custom data queries, consulting and market research are also available.

The Telecompetition® TRAFFICast service provides standard and customized route-level forecasts for traffic sensitive services.

Developed with ATIVA Research Tools (Patent Pending)

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PCIA SUPPORTS THE SPECTRUM CAP

I. COMPETITION AND MARKET STRUCTURE

Updated market data still demonstrates that cellular carriers have a majority of the two-way voice market.

1. Less than 40% of the 487 BTAs are now served with any PCS system.
2. Total US wireless subscribers as of 7/1/99 is 83 million. PCS subscribers equal 16 million which is 19% of total subscribership.
3. In the 100 top MSAs that are served by PCS, market share is still below 25%.

II. DE-BUNKING THE MYTHS

A. Myth: Support of the cap means that PCIA is saying that competition is not working.

Fact: Competition is working

1. FCC's creation of PCS changed the mobile voice services market structure from a cellular duopoly to a multiple mobile market.
2. Introduction of PCS and elimination of the cellular duopoly has caused prices to dramatically drop.
 - In 1998, CTIA reported that a typical mobile telephone user's average bill is \$39.43 per month down from \$56.21 in 1994 – a decrease of 30 %.¹
 - PCS introduced new pricing packages such as 10 cents a minute by bundling long-distance and roaming charges.
3. Introduction of PCS and elimination of the cellular duopoly has brought innovation and choice to the market place.

¹ As shown in the FCC's Fourth Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services, Table 1, Appendix B, Released June 24, 1999.

- Innovative service bundling including voice mail, call waiting, dispatch services, automatic recall, speed dialing, caller ID and short messaging services.
- Wireless infrastructure is being modernized and upgraded from analog to digital equipment.
- The wireless market has also seen an increase in new arrangements with adjacent carriers to offer better roaming packages.
- Increased competition has fostered unprecedented innovation in wireless handsets.
- The wireless market is on the verge of introducing a range of data services.

B. Myth: The cap prevents consolidation in the marketplace.

Fact: The cap allows for significant consolidation, but assures at least 4 licenses in any market ($180 \text{ MHz} / 4 = 45 \text{ MHz}$).

1. Within these parameters, current cellular licensees can purchase PCS licenses and PCS licenses can purchase other PCS or cellular licenses.
 - Cellular licenses are 25 MHz each
 - PCS licenses are 30 MHz, 15 MHz, and 10 MHz
 - SMR licenses are attributed at 10 MHz
2. In addition, FCC rules allow for license holders to partition off portions of their market to other carriers and to disaggregate a portion of their spectrum holdings to another carrier within their market, allowing for partial sales up to the cap limit.

C. Myth: The cap prevents carriers from acquiring additional spectrum for 3G services.

Fact: The current cap does not apply to any future spectrum allocation.

If the Commission makes additional two-way voice spectrum available for 3G operations, the spectrum is not subject to the current cap.

D. Myth: The cap is preventing carriers from introducing 3G services.

Fact: No carrier has reached the 45 MHz cap in any market.

E. Myth: Support of the cap means that PCIA supports regulation.

Fact: PCIA supports the FCC's continued role as manager of the spectrum, which is a valuable and limited national resource.

1. Premature elimination of the cap will result in high market concentration.
 - If eliminated, new PCS providers face combined PCS/cellular operators with customer bases and spectrum reserve potential to dominate markets.
 - Elimination of the cap and cellular cross-ownership prohibition could permit 1 or 2 companies to operate all systems in the same market.
 - Changes now would encourage sell-outs not build-outs.
2. Elimination would threaten use of technical improvements and service to compete instead of mergers and consolidations.
3. The PCS industry is still new. PCS competitors are not sufficiently established in the marketplace, in many areas, PCS has yet to attract the first customer.
4. Auctions were premised on a spectrum cap market structure and relied upon to determine value of spectrum and bids.
 - Changing the rules before auction winners reach final construction deadlines or are still trying to acquire financing would destabilize this evolving market.
5. In the midst of current consolidation in the wireline industry, the cap prevents unintended consequences in the wireless market.

III. PCIA OPPOSES THE ELIMINATION OF THE SPECTRUM CAP IN RURAL MARKETS

- A. PCIA believes that the need for the spectrum cap in rural markets is just as great as in urban markets
- B. The carriers supporting the elimination of the cap in rural markets are the incumbent cellular carriers
- C. Competition in rural markets will ensure that advanced services and competitive pricing is introduced in those markets
- D. Rather than eliminating the cap, a waiver standard should be established for rural areas.

IV. LONG TERM PUBLIC POLICY OBJECTIVES

- A. Sole reliance on antitrust process would be uncertain and costly for small PCS providers beginning to compete with large incumbents.
- B. Cap brings certainty to financial markets and facilitates business planning. Stability is vital to PCS licensees still constructing systems.
- C. The cap encourages the building of independent, facilities-based networks that are vital to true competition.
- D. When system construction is complete and customer bases have created a stable marketplace, the FCC should revisit the cap and modify or eliminate. This decision must be based on the important public policy factors at stake.

The Impact of PCS Service on U.S. Wireless Pricing

September 2, 1999

Wireless/Mobile Communications

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Agenda

- **Description of Pricing Methodology**
- **National Summary of the Impact of PCS Introduction on Wireless Pricing and Competition**
- **Price Declines in the Top 25 Markets after PCS Launches**
- **Price Changes for Analog and Digital Cellular in the Top 25 Markets after PCS Launches**

What is the Bundled Price per Minute?

- **Bundled Price per Minute (BPPM) is a methodology used by the Yankee Group to benchmark rate plans promoted by different carriers in different markets**
- **For each rate plan, BPPM considers monthly access fees, included minutes, per minute airtime charges in excess of the included minutes, and first incoming minute charges**
- **The BPPM Model automatically selects the best available price per carrier at five levels of monthly usage-60, 100, 250, and 500 Minutes of Use (MOUs)**

Why Use the BPPM Model?

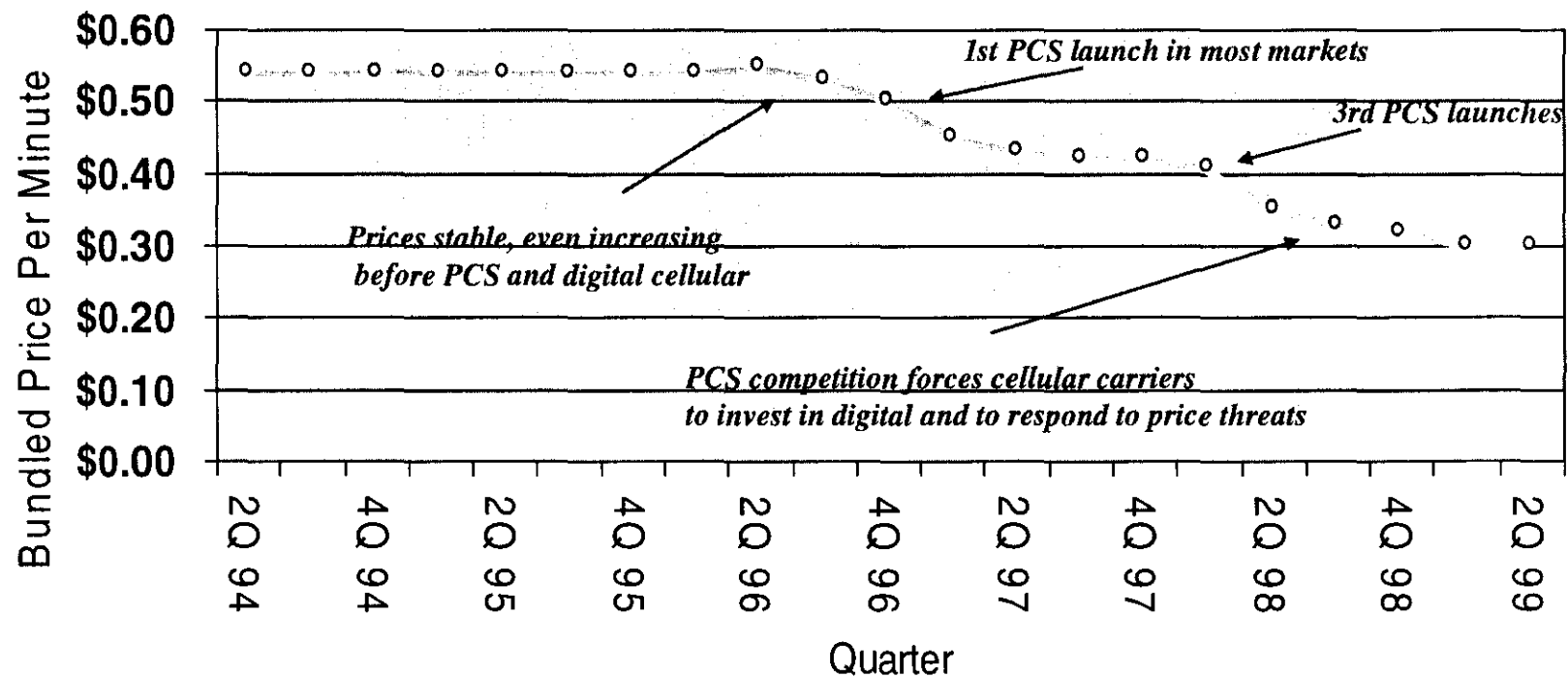
- Any one rate plan may or may not be the cheapest wireless service to use across different levels of MOU
- When consumers purchase wireless service, their usage decisions still depend heavily on price
- The purpose of the BPPM Model is to present a price-based comparison for usage costs across multi-carrier environments

BPPM Model Assumptions

- BPPM is a usage-based analysis; it does not take into consideration activation/connection fees or equipment costs
- The BPPM Model excludes special promotional plans which are constantly changing, and hence may not be the best indicator of the “going” rates for wireless usage
- When MOU \leq 60, 30% of calls are during Peak hours, and 70% of calls are during Off-Peak hours
- When MOU $>$ 60, 70% of calls are during Peak hours, and 30% of calls are during Off-Peak hours
- 65% of calls are Outgoing, and 35% of calls are Incoming



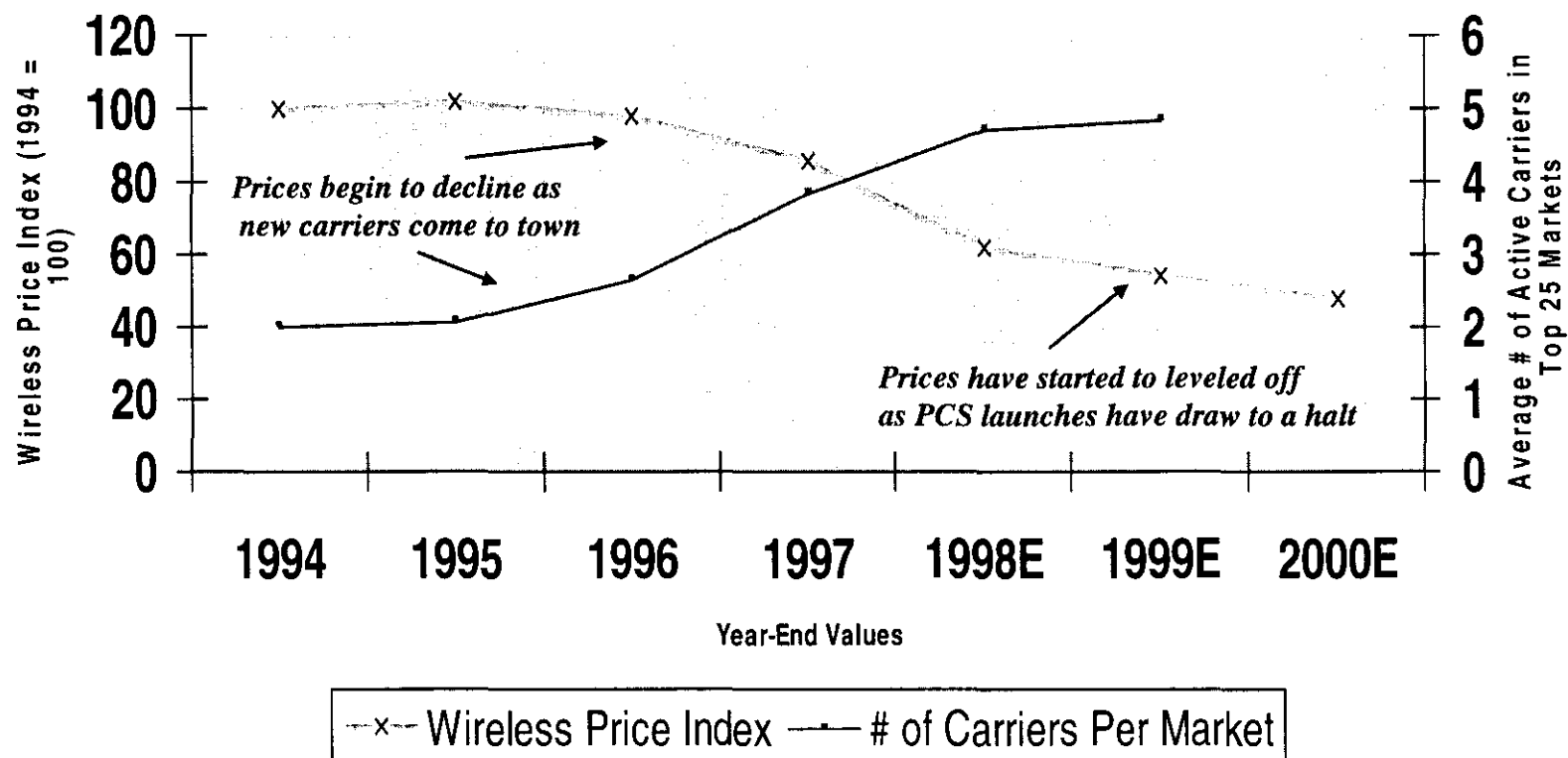
Introduction of PCS Stirs Cellular Pricing



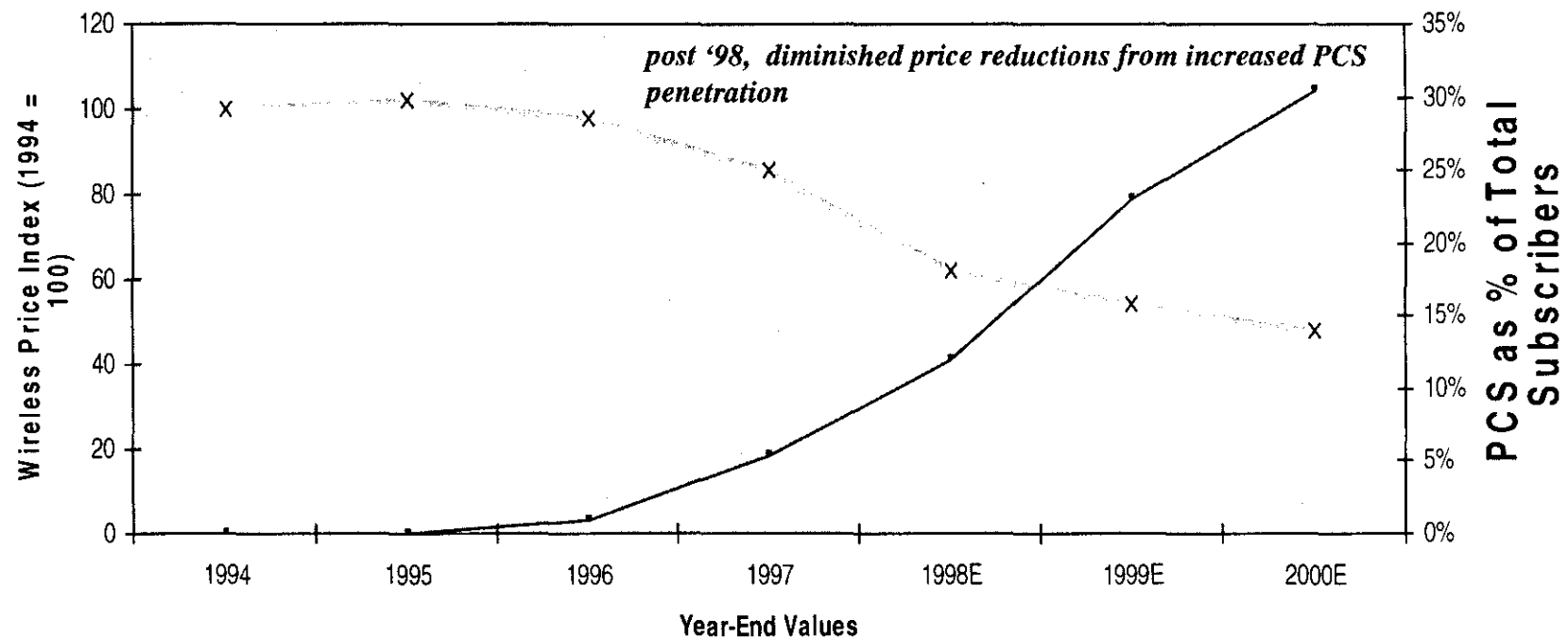
—○— Cellular (Lowest of Analog or Digital Cellular) — PCS



More Players in the Market Means Lower Average Prices



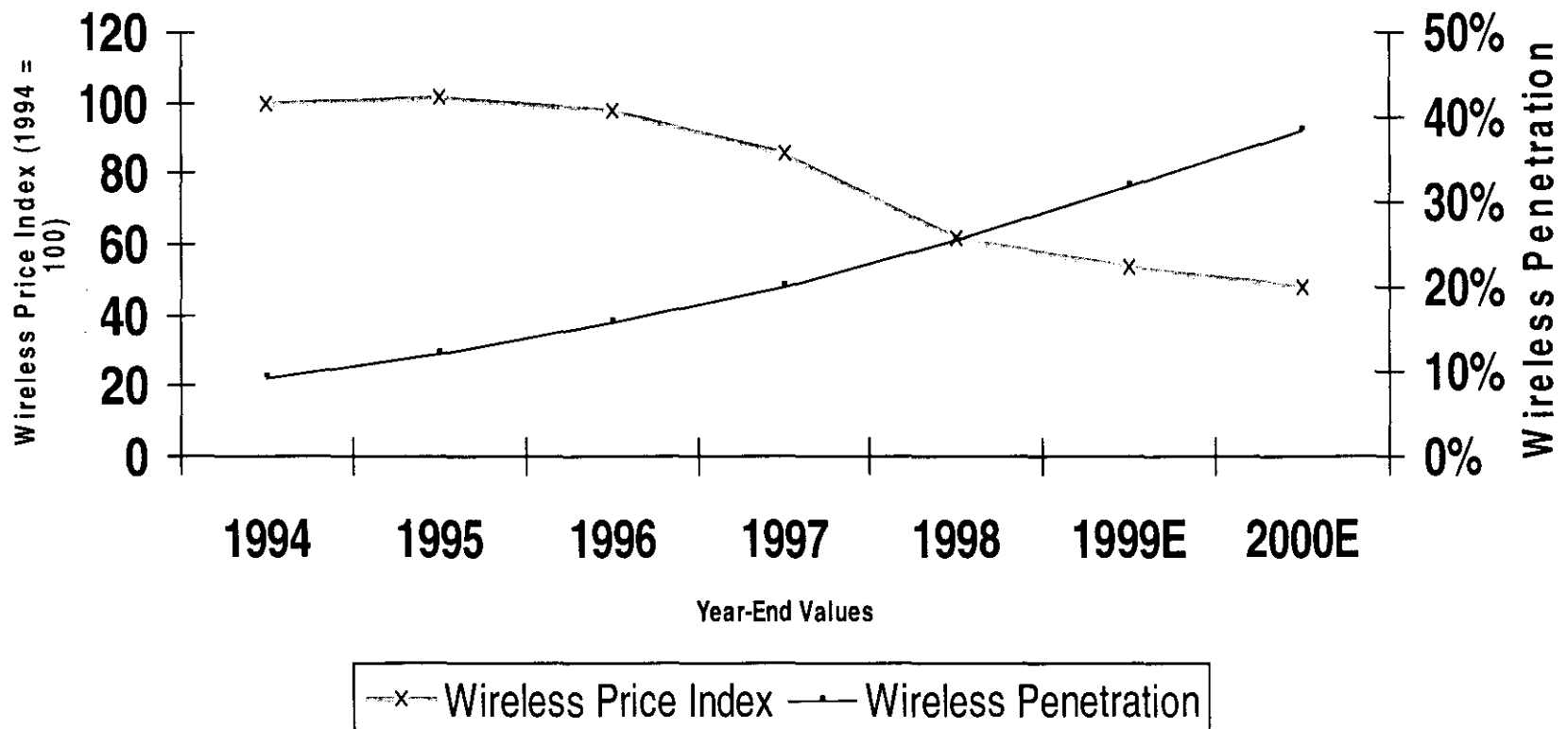
As PCS Penetrates the Market, Prices Fall



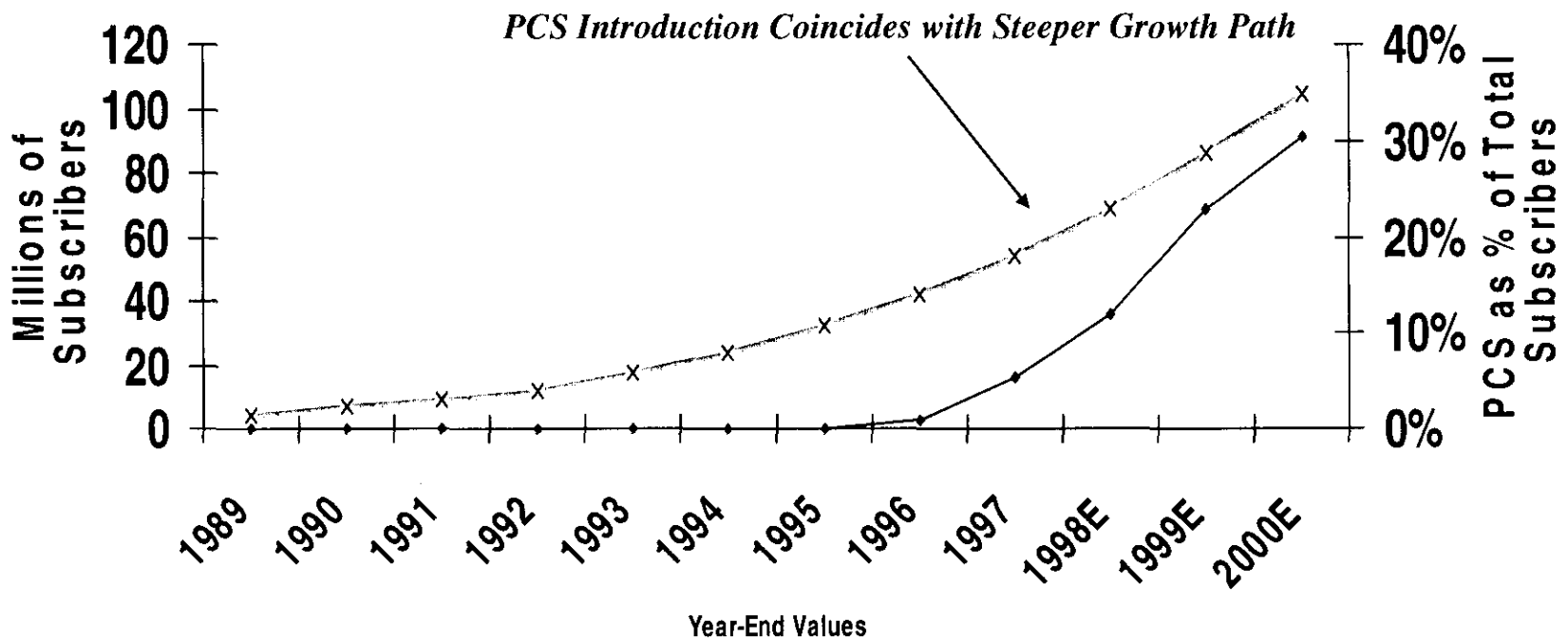
—x— Wireless Price Index —•— PCS Penetration



As Prices Fall, More Americans Use Wireless Phones

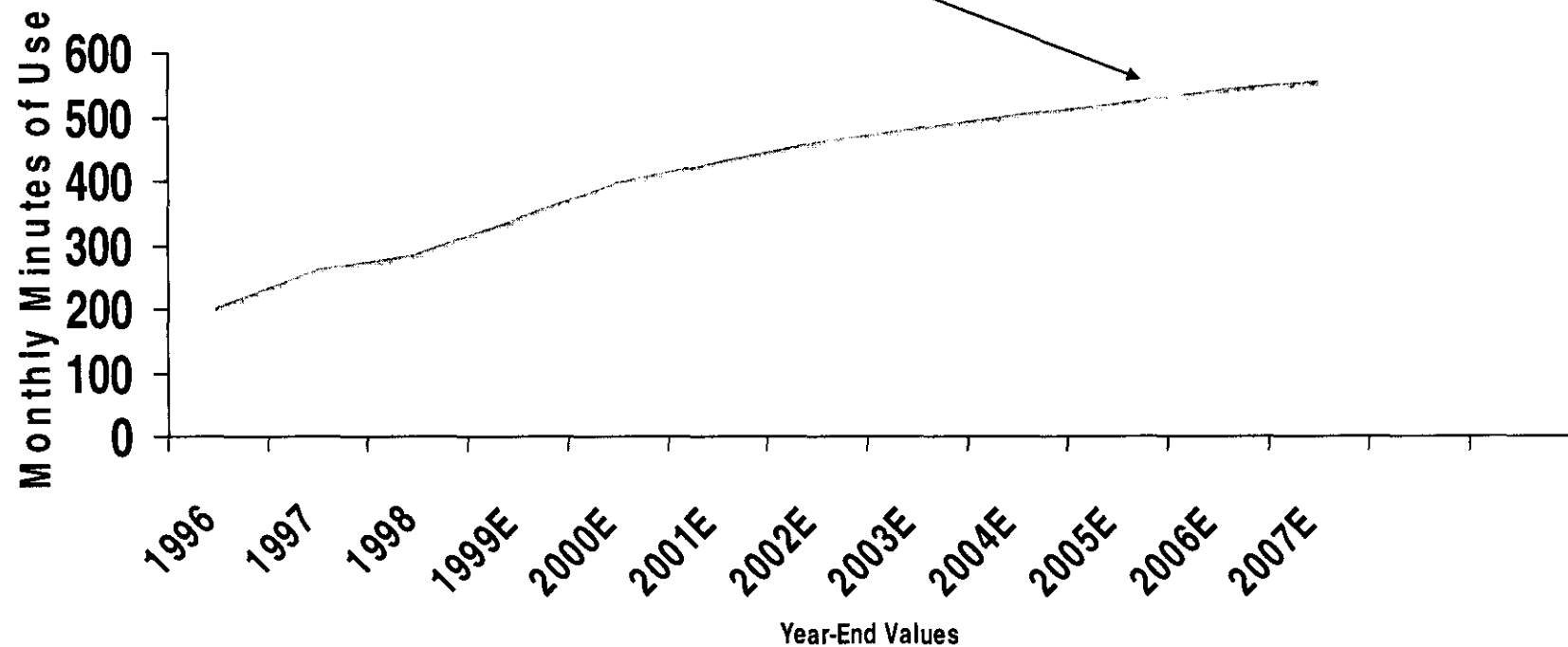


PCS Penetration has Helped Wireless Industry Maintain Momentum



PCS Users Lead the Way in MOUs

Eventually, average usage levels will match PCS



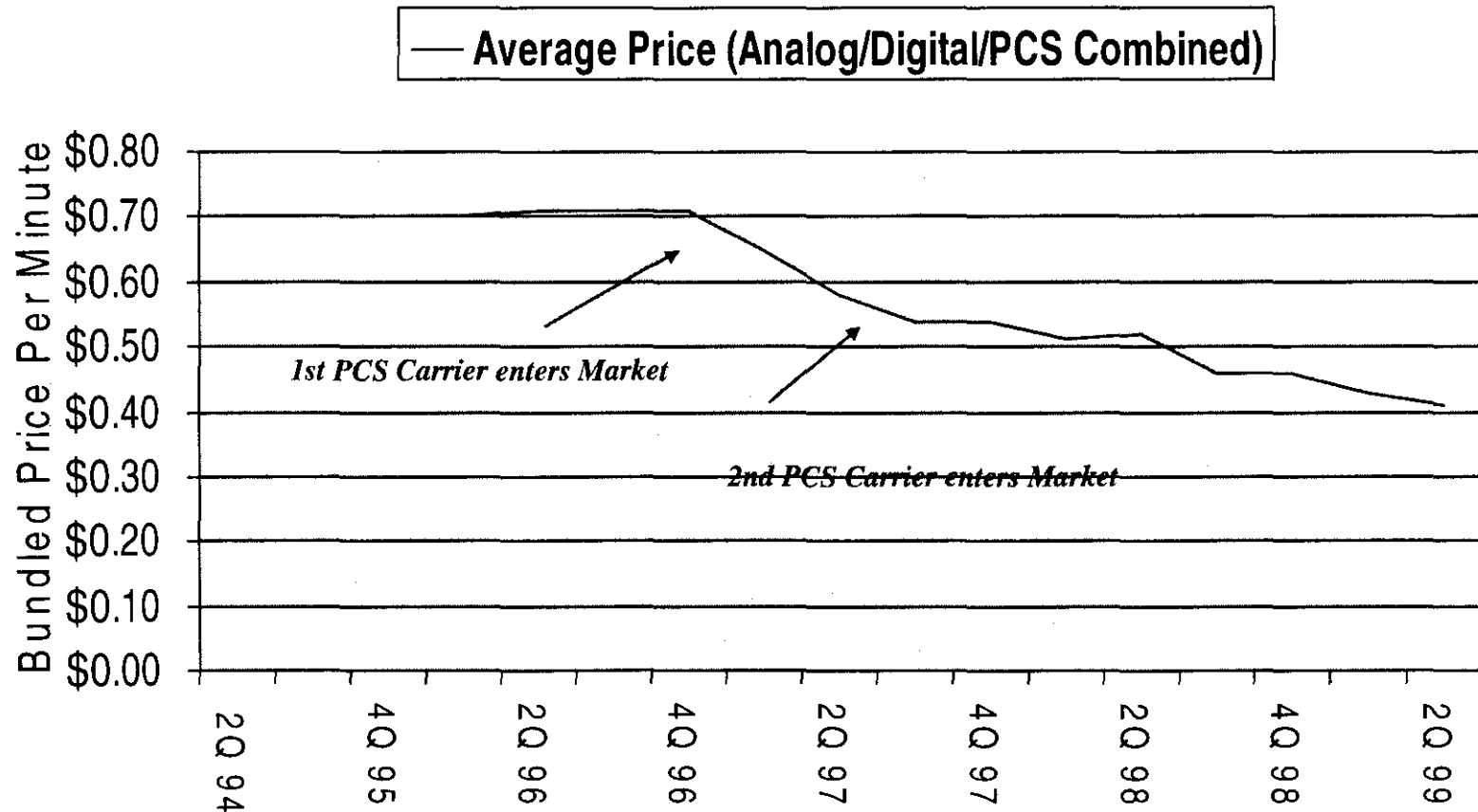
What PCS Brought to the U.S. Market

- **Lower prices**
 - PCS Carriers entered markets at price points 30% below analog cellular and...
 - Offered big-bucket plans that encouraged increased usage and thus lowered effective per minute prices
- **Technology shift to digital**
 - The big-bucket plans and claims of superior sound quality forced cellular carriers to adapt digital technology earlier than they might have otherwise
 - 35% of the wireless subscriber base are now using a digital phone
- **Mainstreaming of wireless**
 - On average, PCS customers use over 300 minutes of monthly airtime (almost 3 times the historical average)
 - » Wireless is no longer a luxury item to be used in emergencies only
 - From the user's perspective, wireless is more "simple"
 - » Since the introduction of PCS, roaming charges and peak/off-peak price differences have disappeared on select plans
 - » Users are worrying less about extra charges
- **Greater diversity of wireless consumer service**
 - Over 40% of Prepaid Subscribers are PCS
 - Since PCS carriers (and Nextel) have launched service, 1st incoming minute free has become a standard offer and per-second billing is available in select markets.
 - Digital wireless service has led to a greater variety of enhanced service offerings and new mobile data applications

City Pricing

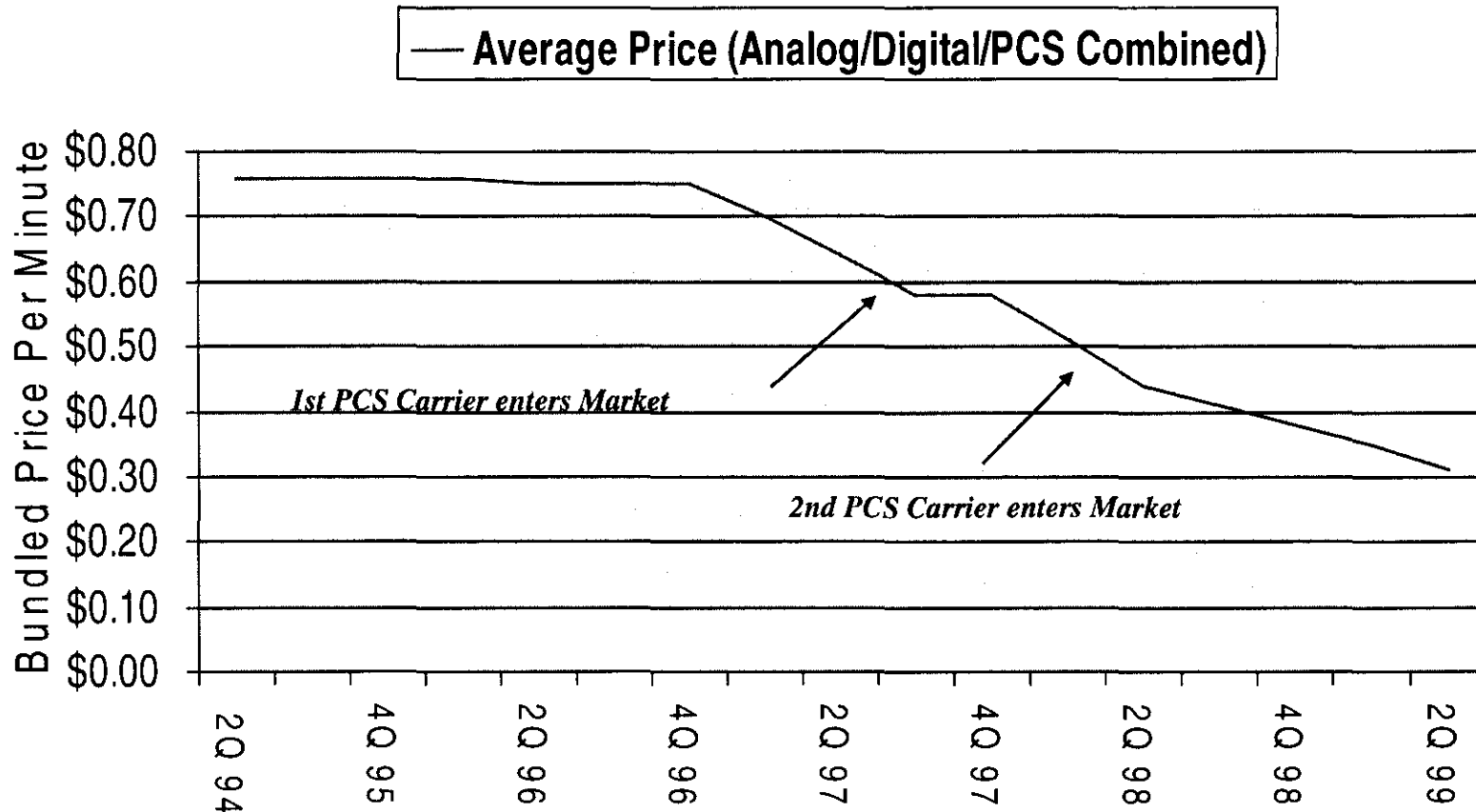
- The following 50 slides show price declines in each of the top 25 markets
 - Prices are calculated by weighing the Bundled Price Per Minute (BPPM) at different usage levels
 - For each city, we show aggregated price declines and declines in PCS, analog cellular, and digital cellular pricing

Average Prices in New York Drop with PCS Entry



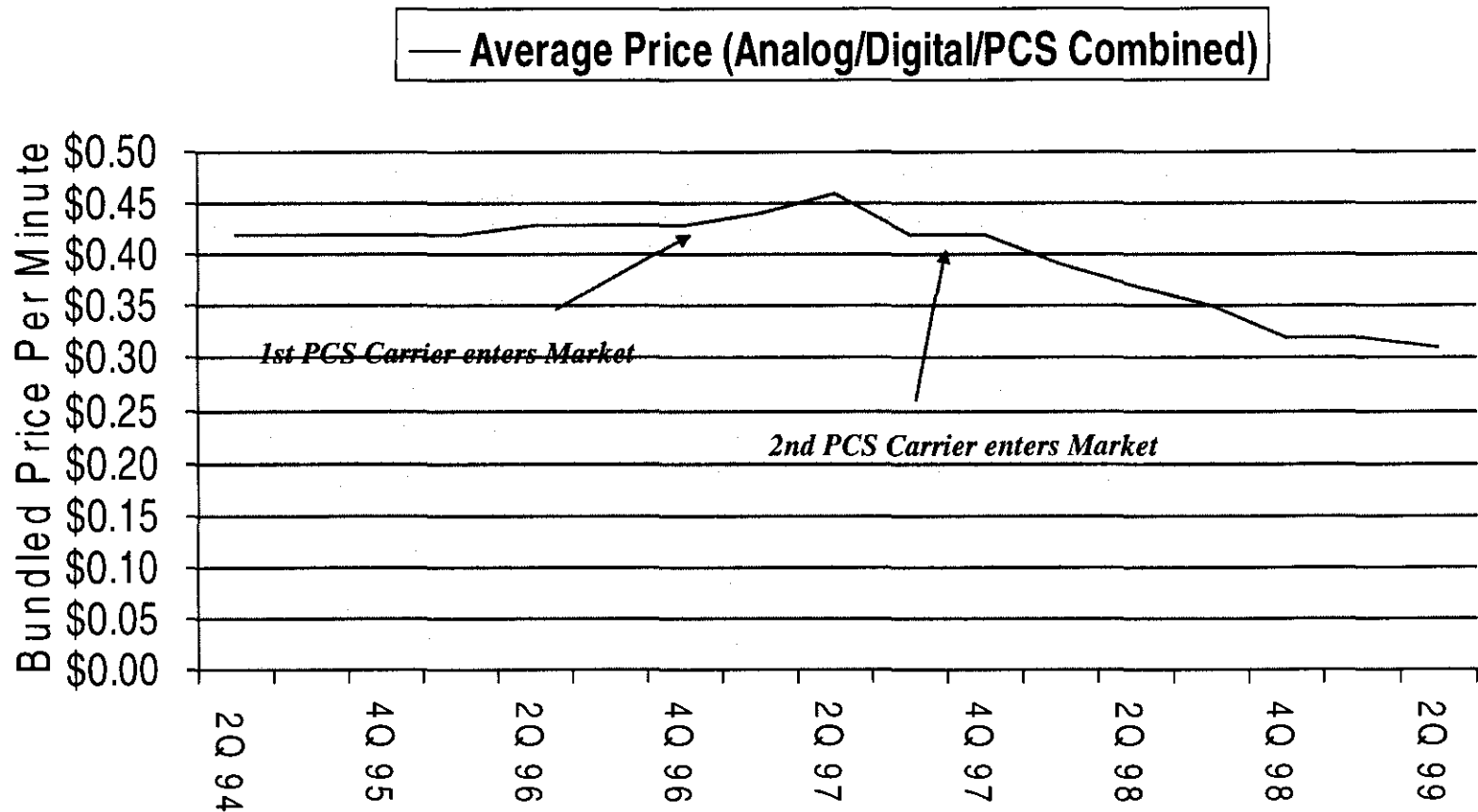
-Prices dropped 18% after the first PCS carrier entered the market, and fell a further 30% after the second PCS carrier launched service

Average Prices in Los Angeles Drop with PCS Entry



-Prices dropped 17% after the first PCS carrier entered the market, and fell a further 46% after the second PCS carrier launched service

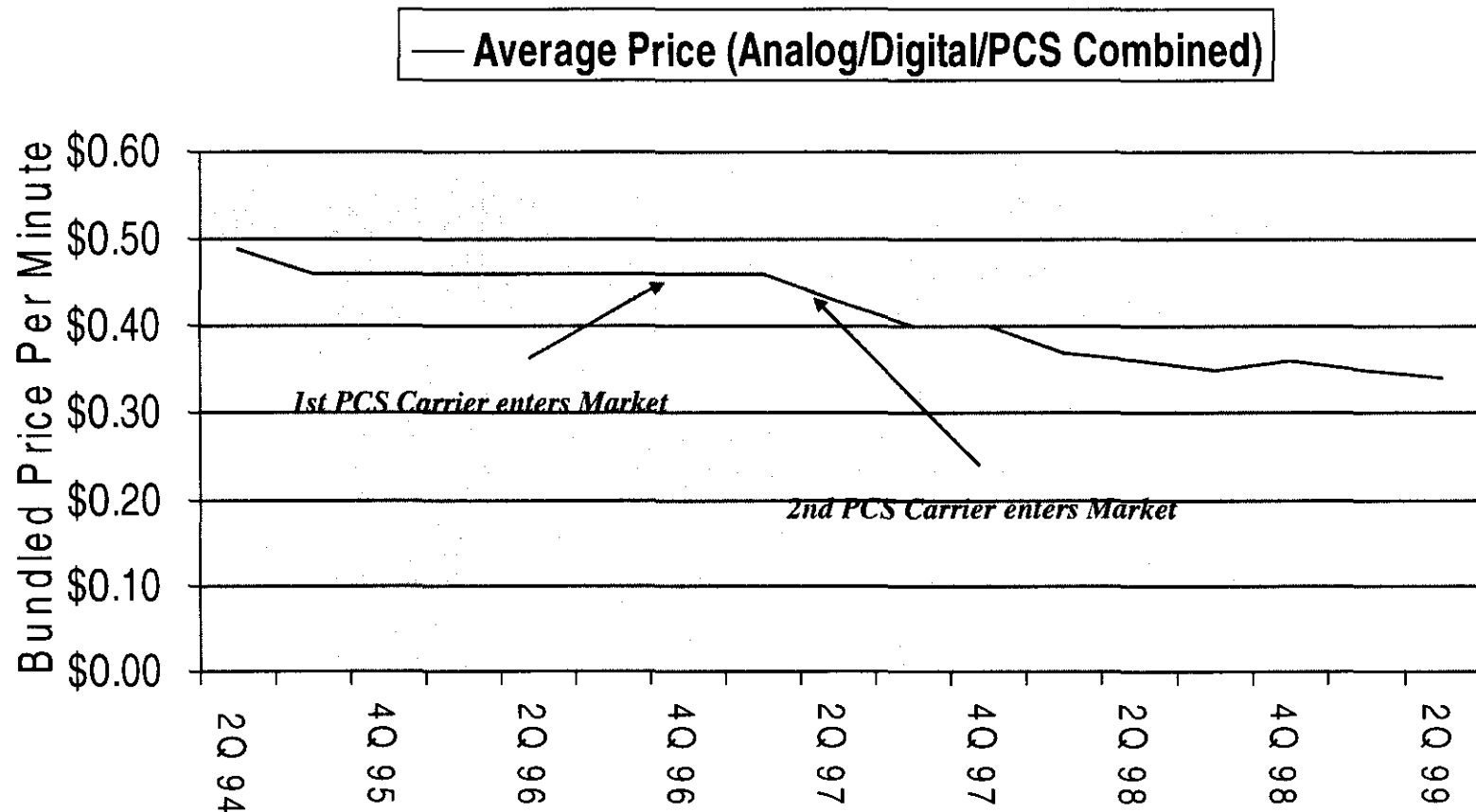
Average Prices in Chicago Drop with PCS Entry



-Prices increased 6% after the first PCS carrier entered the market, but fell 31% after the second PCS carrier launched service

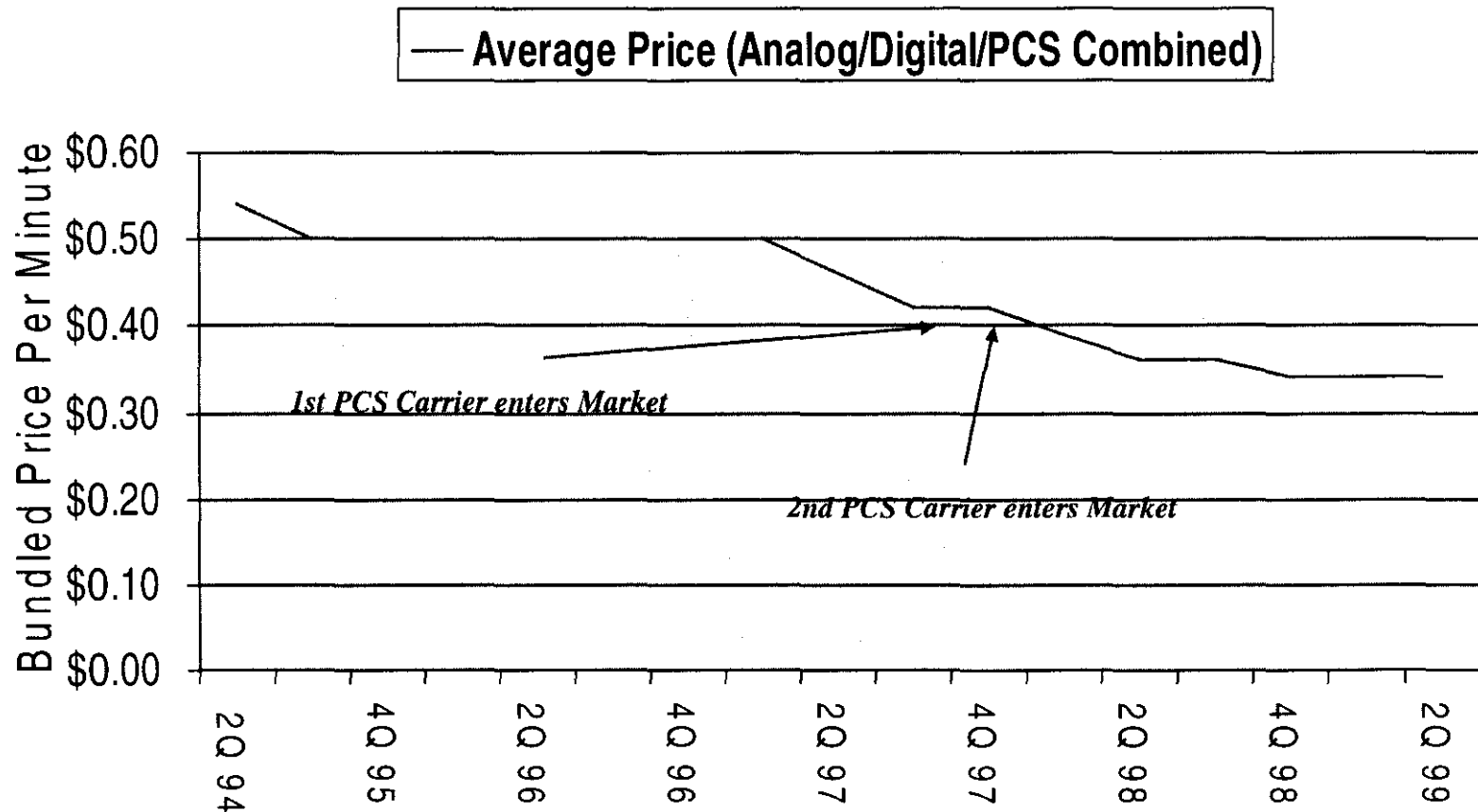


Average Prices in Philadelphia Drop with PCS Entry



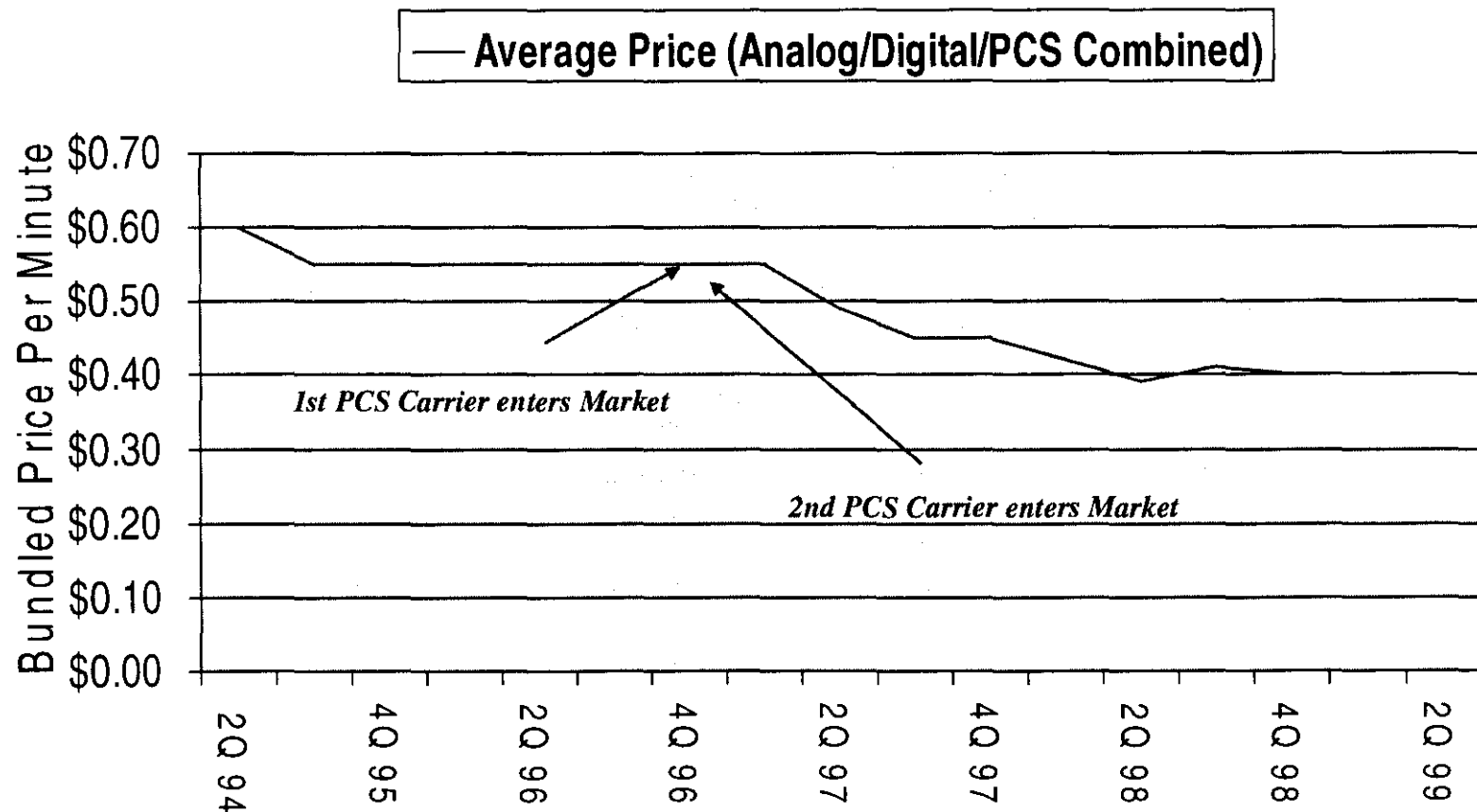
-Prices remained flat until the second PCS carrier launched service and prices fell 15%

Average Prices in Detroit Drop with PCS Entry



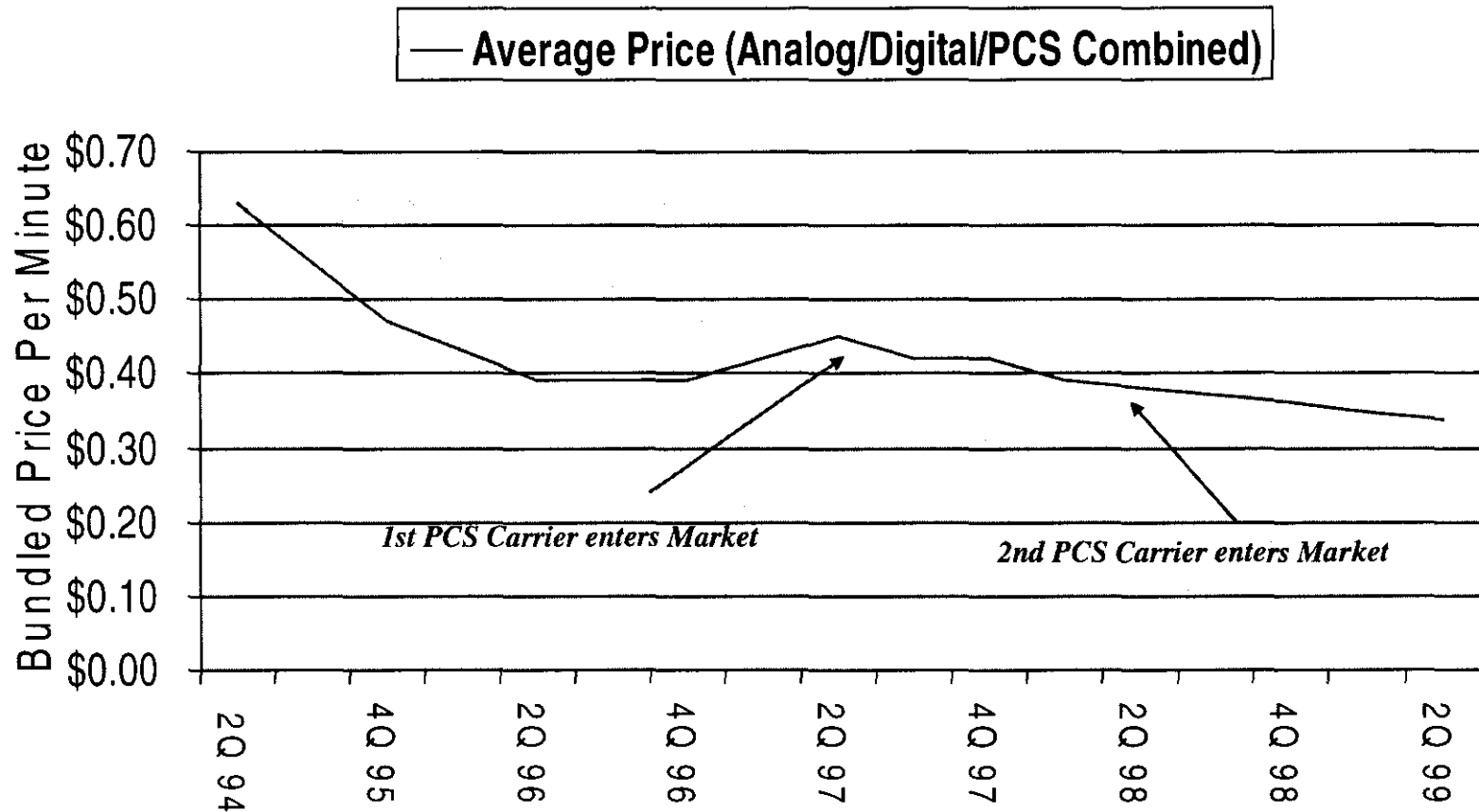
-Prices fell 13% after the first two PCS carriers launched service

Average Prices in Dallas Drop with PCS Entry



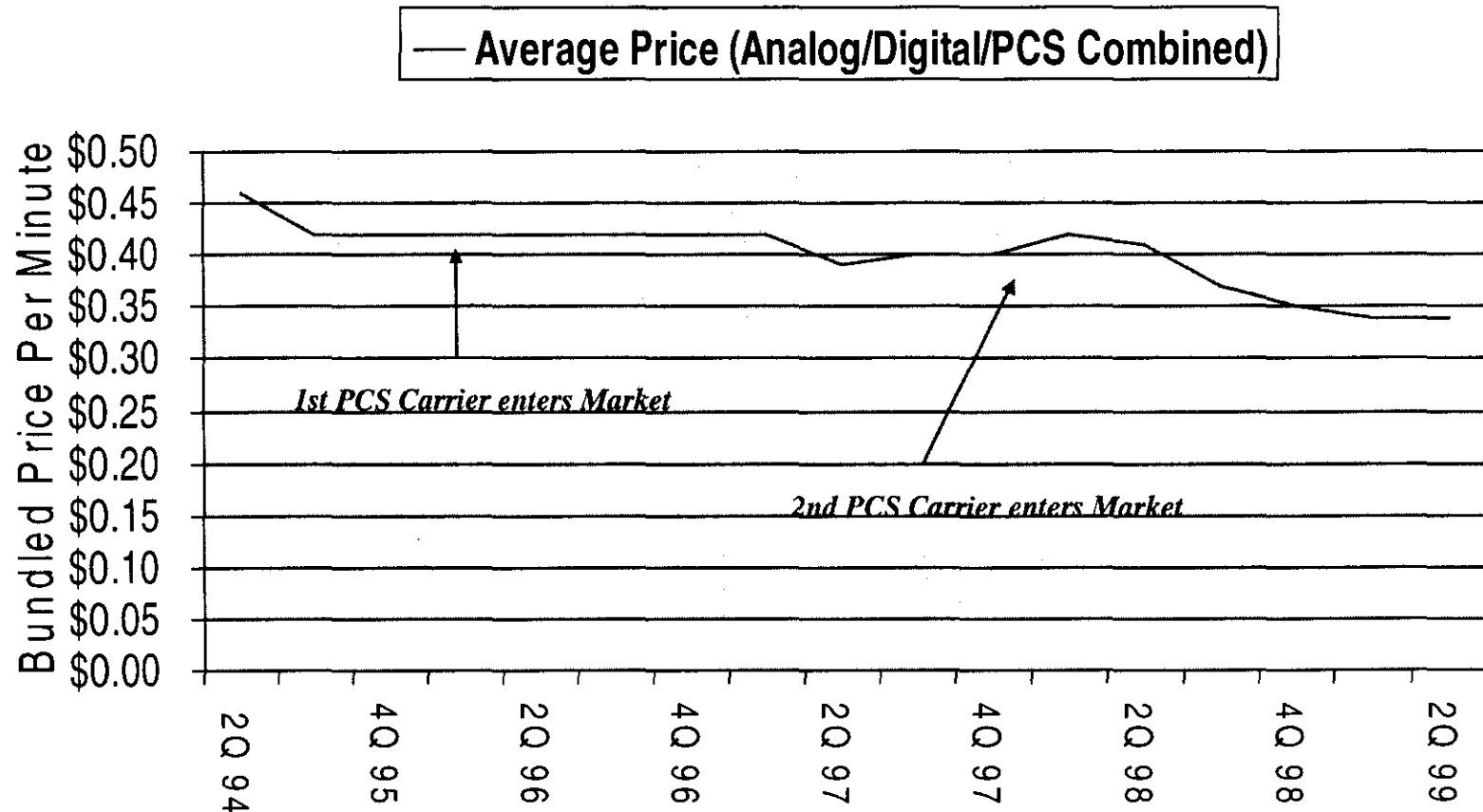
-Prices fell 19% after the first two PCS carriers launched service

Average Prices in Boston Drop with PCS Entry



-Prices dropped 13% after the first PCS carrier entered the market, and fell a further 12% after the second PCS carrier launched service

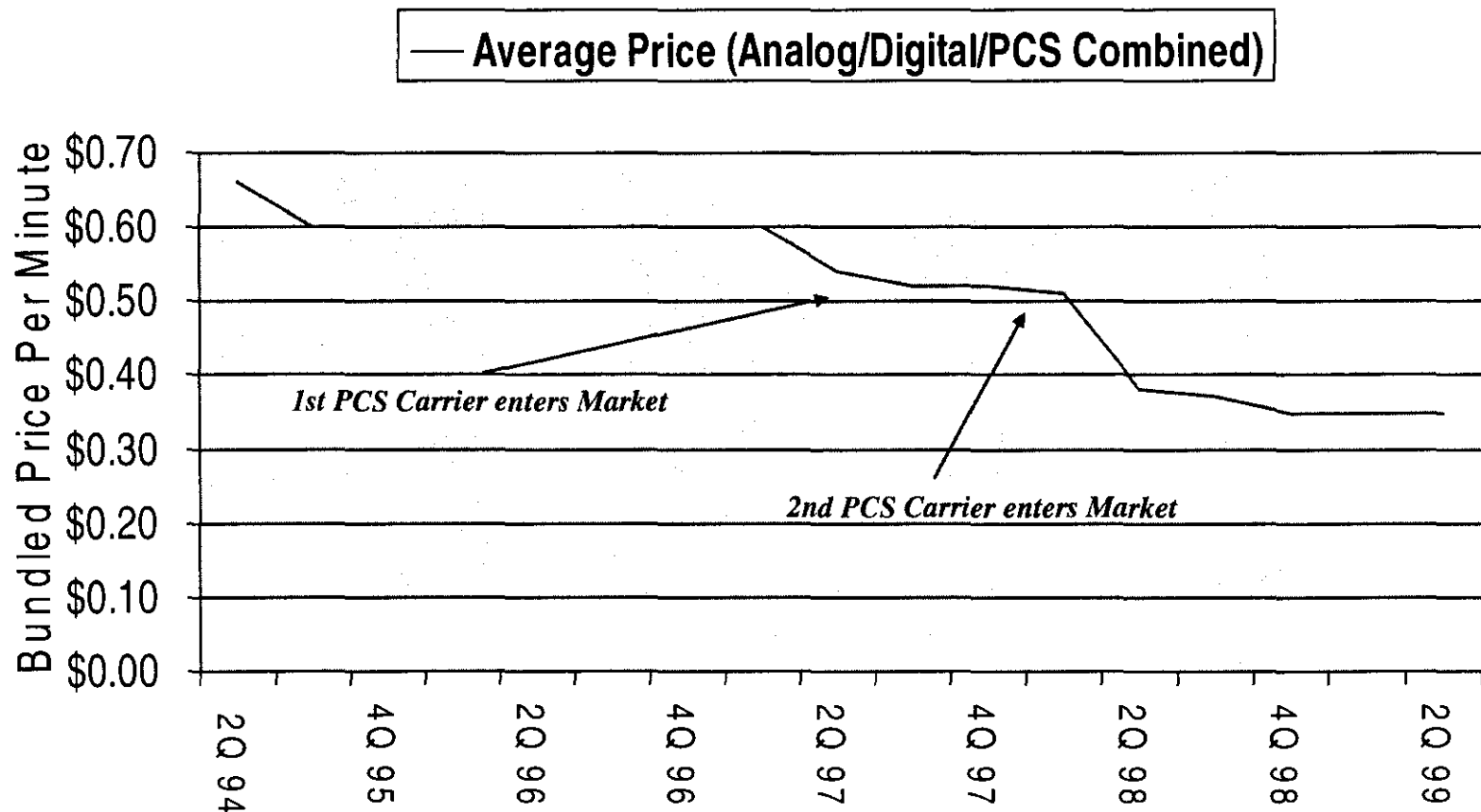
Average Prices in Washington Drop with PCS Entry



-Prices in Washington have fallen 10% since PCS introduction

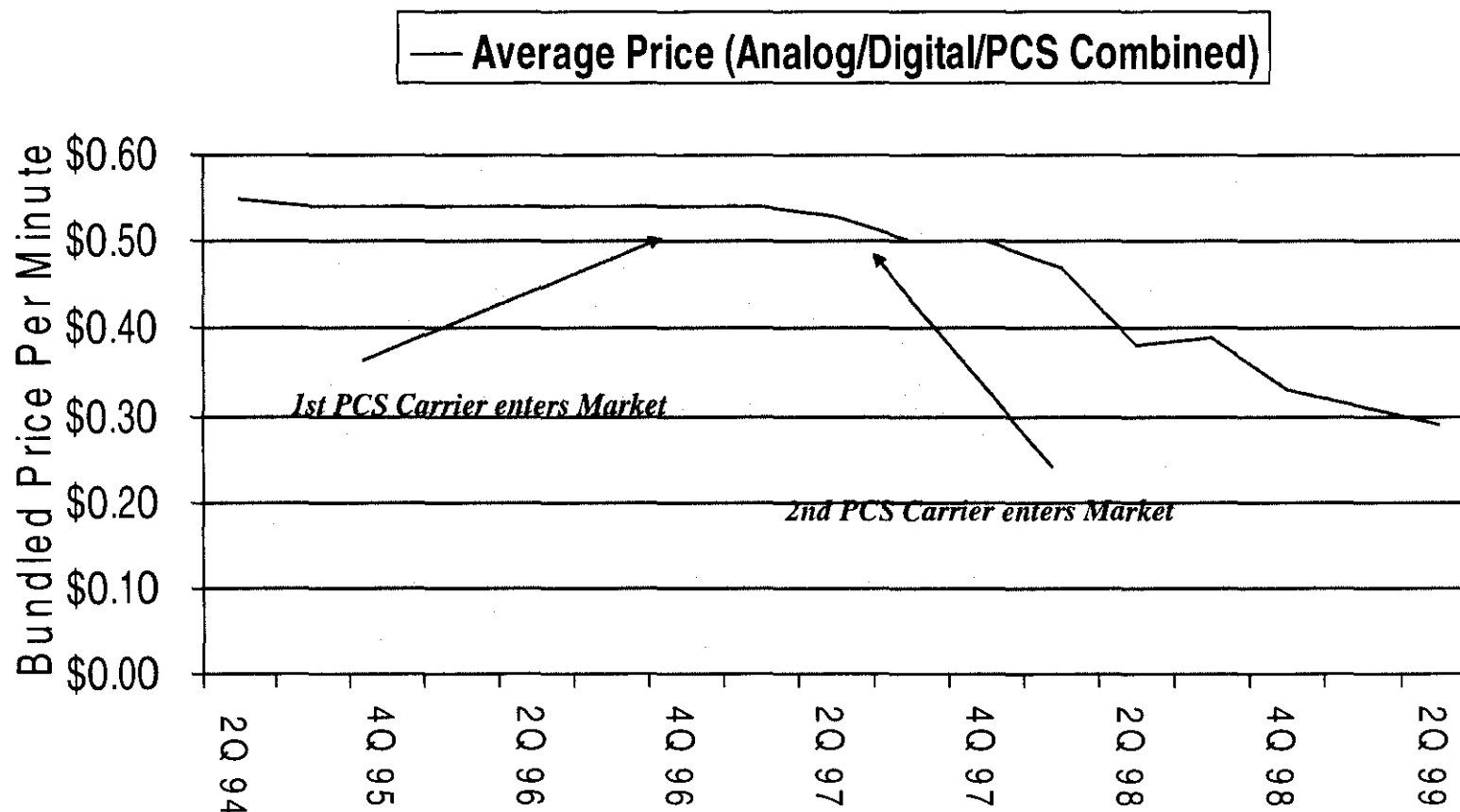


Average Prices in San Francisco Drop with PCS Entry



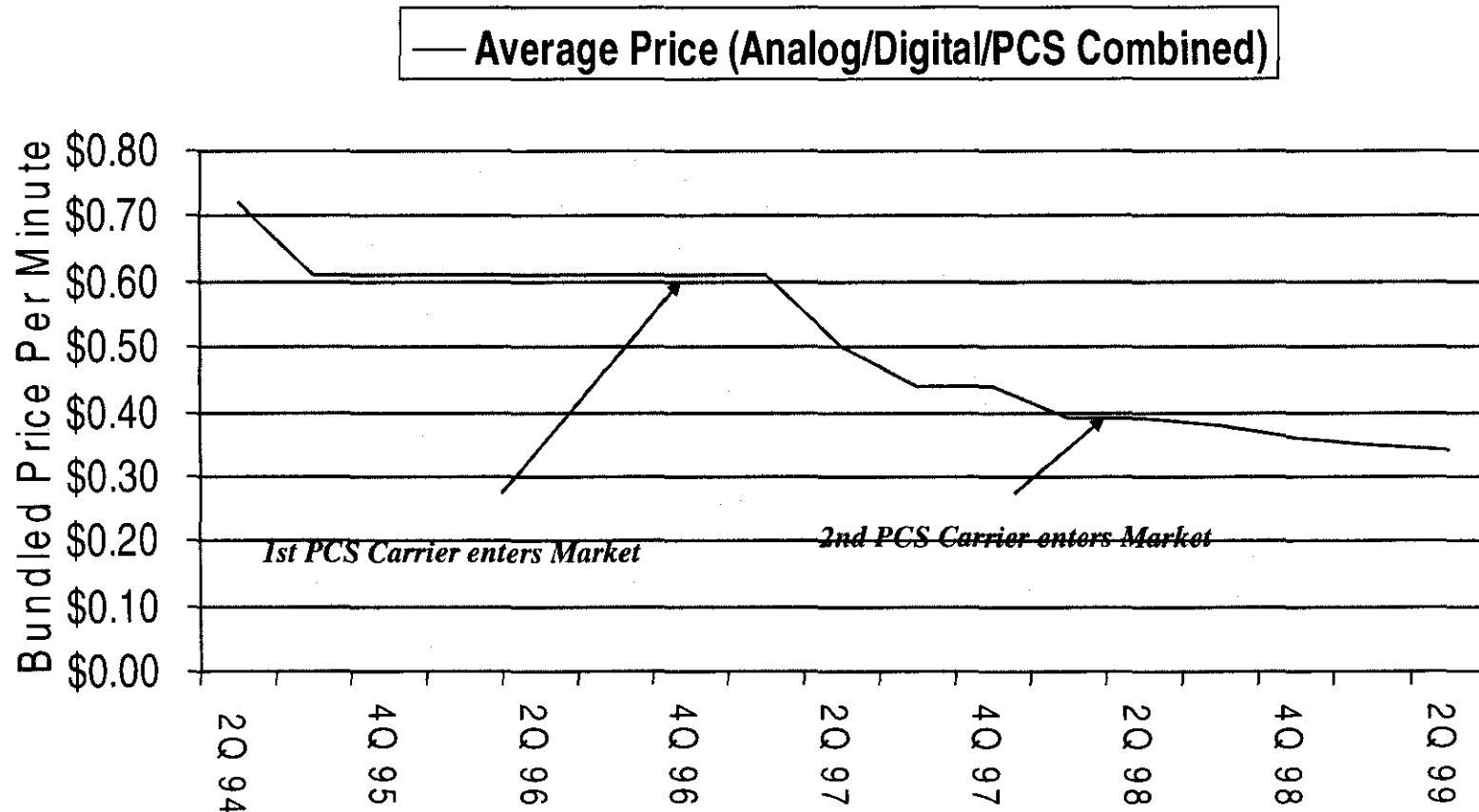
*-Prices dropped 13% after the first PCS carrier entered the market,
and fell a further 34% after the second PCS carrier launched service*

Average Prices in Houston Drop with PCS Entry



-Prices dropped 2% after the first PCS carrier entered the market, and fell a further 37% after the second PCS carrier launched service

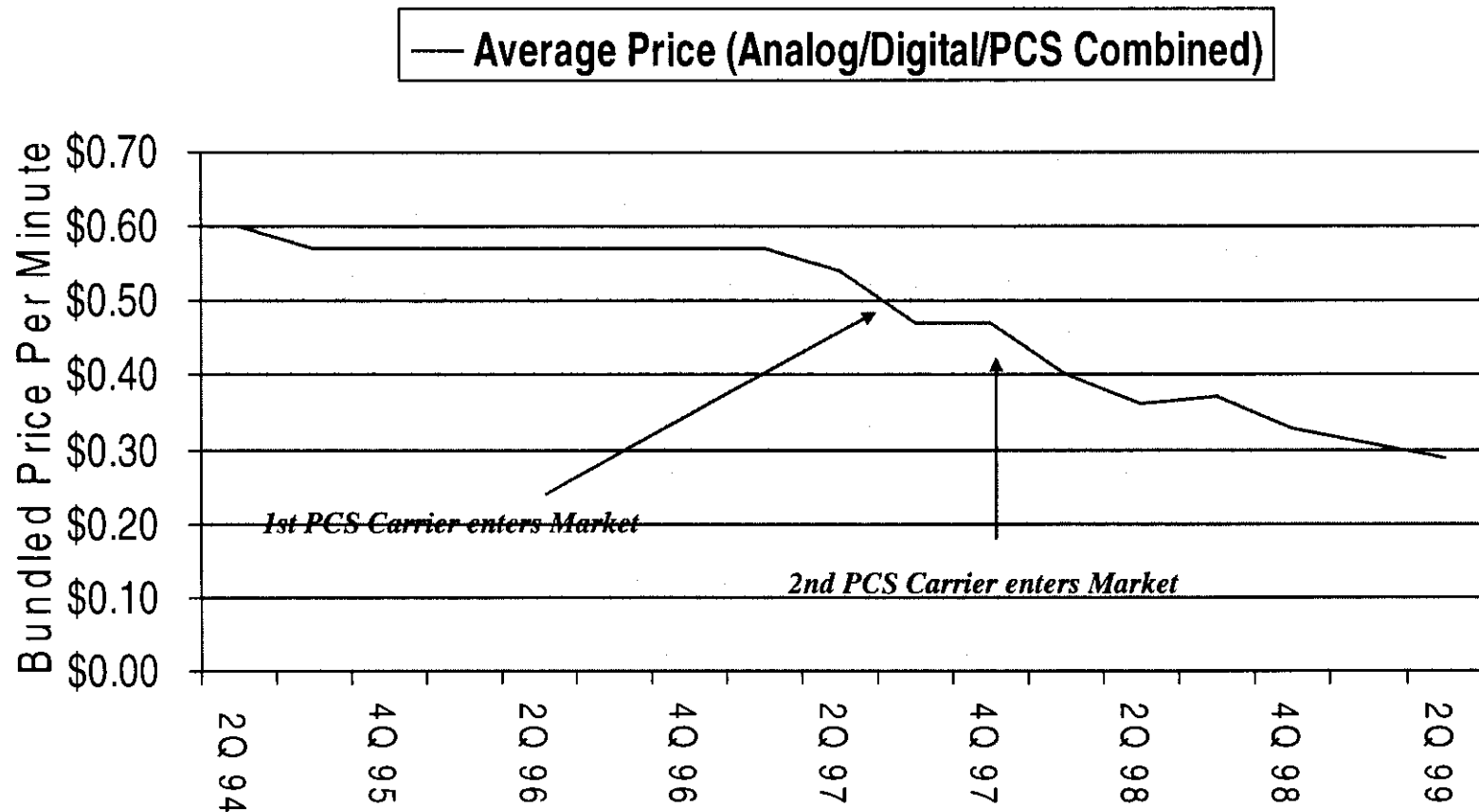
Average Prices in Miami Drop with PCS Entry



-Prices dropped 37% after the first PCS carrier entered the market, and fell a further 12% after the second PCS carrier launched service

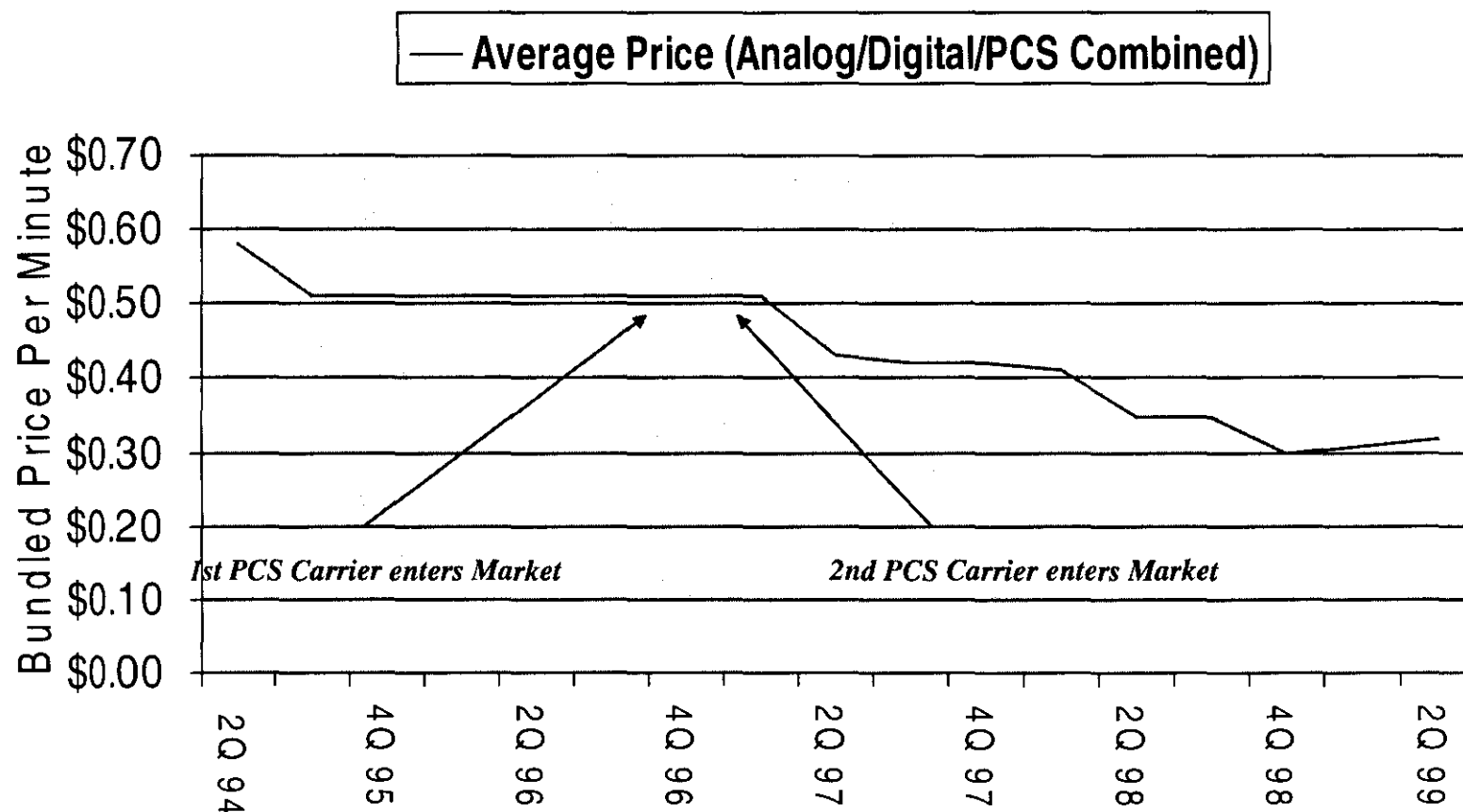


Average Prices in Atlanta Drop with PCS Entry



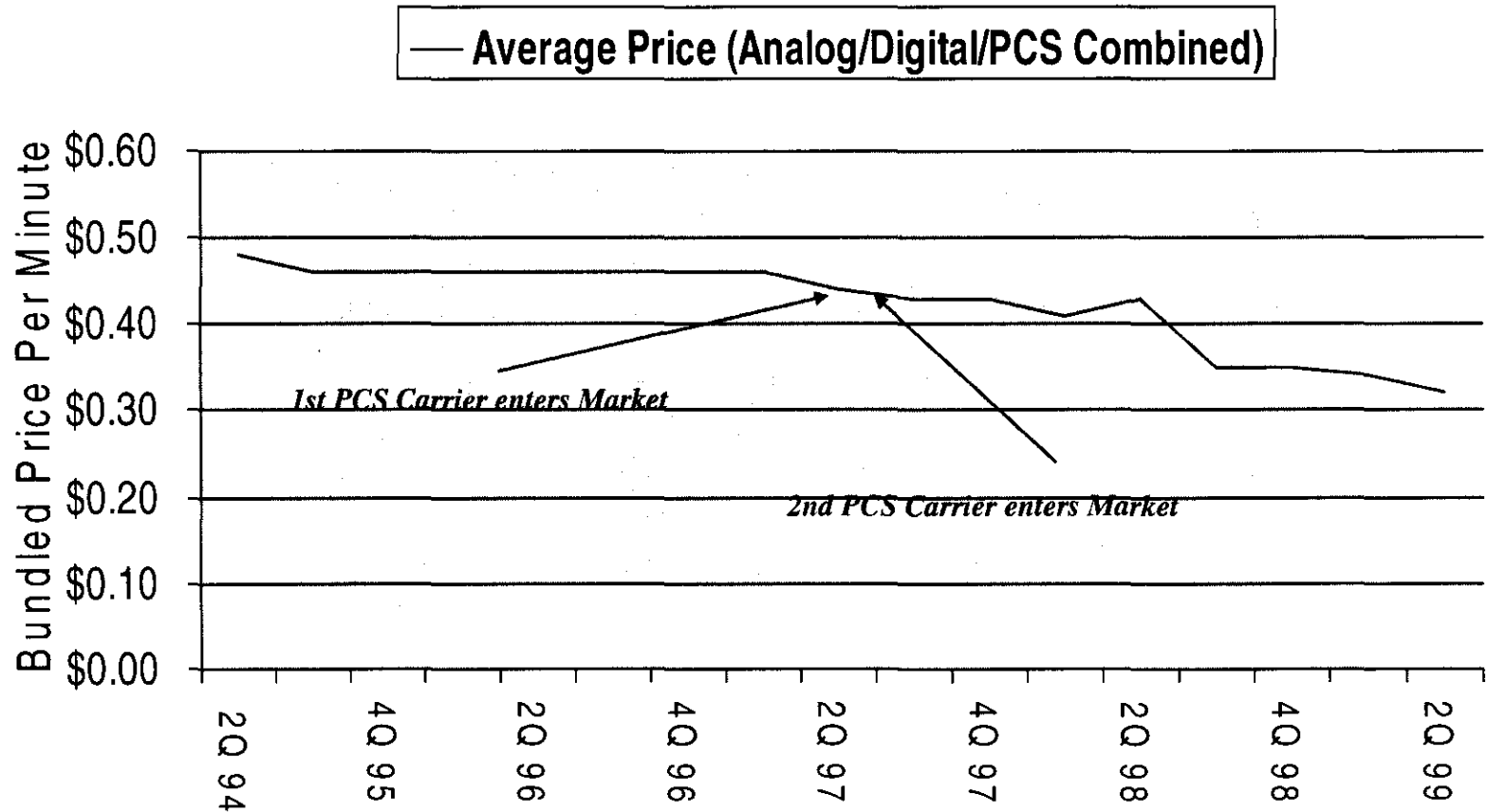
-Prices dropped 13% after the first PCS carrier entered the market, and fell a further 37% after the second PCS carrier launched service

Average Prices in San Diego Drop with PCS Entry



-Prices have fallen 38% since the first 2 PCS carriers launched service

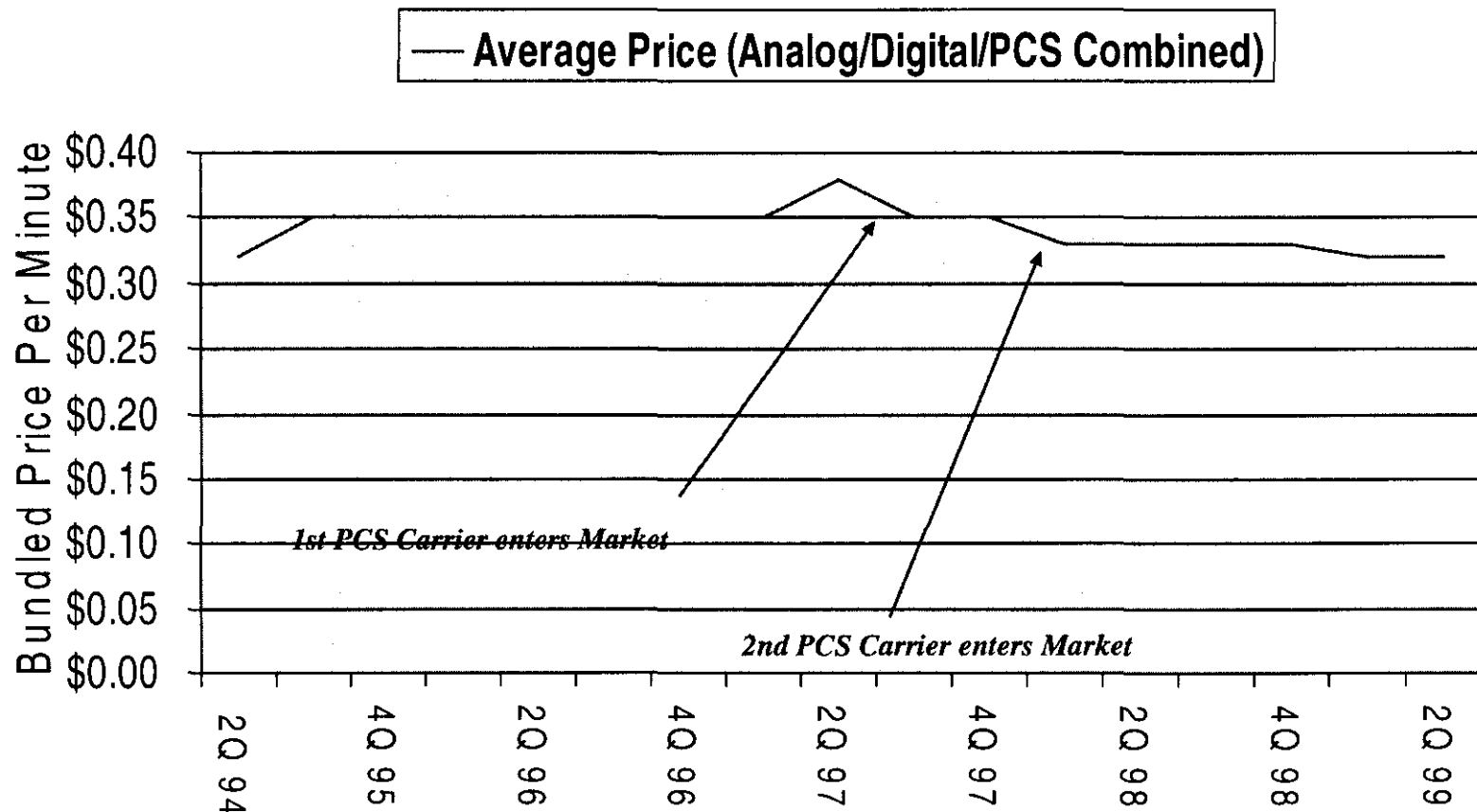
Average Prices in Minneapolis Drop with PCS Entry



-Prices have fallen 27% since the first 2 PCS carriers launched service

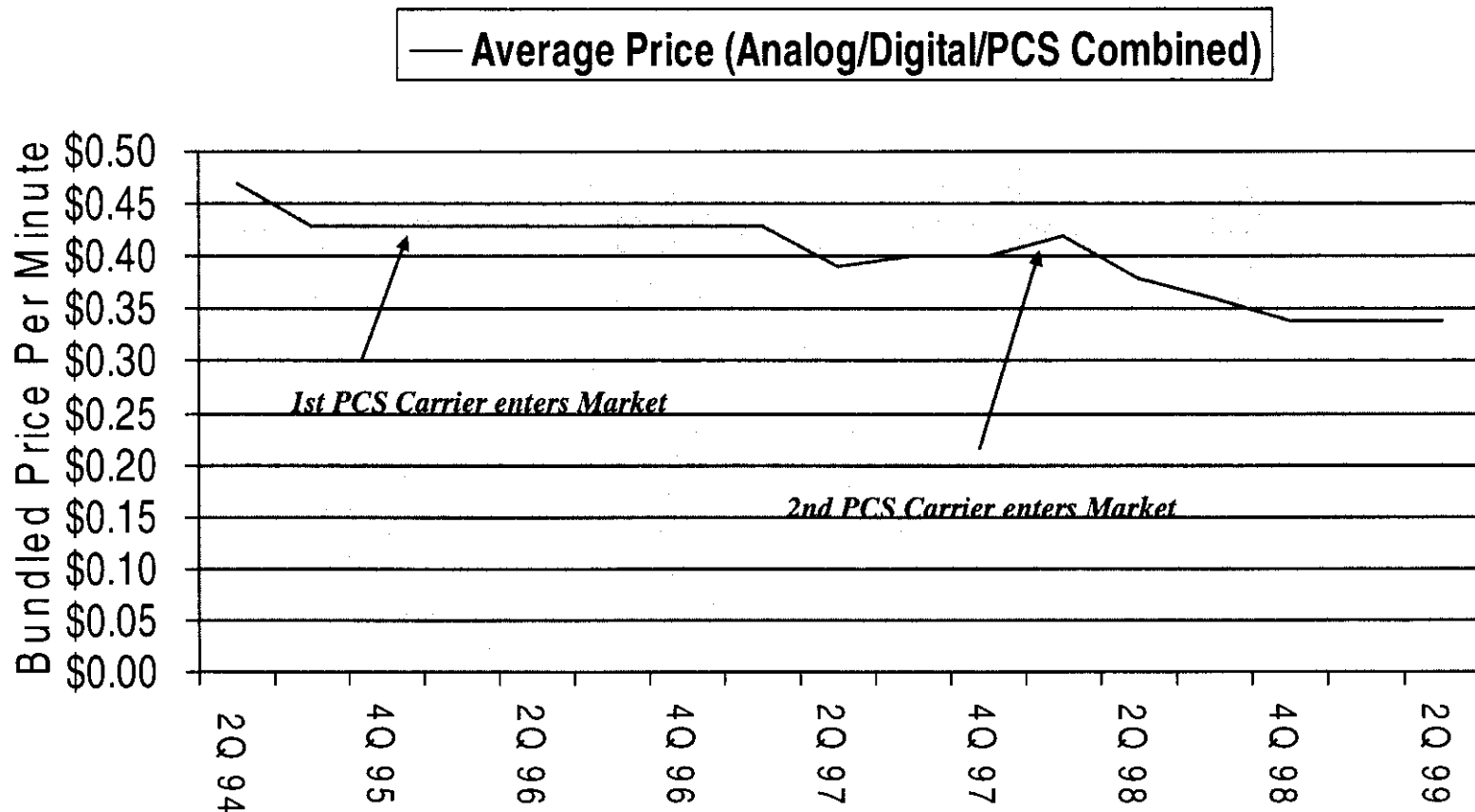


Average Prices in St. Louis Decrease with PCS Entry



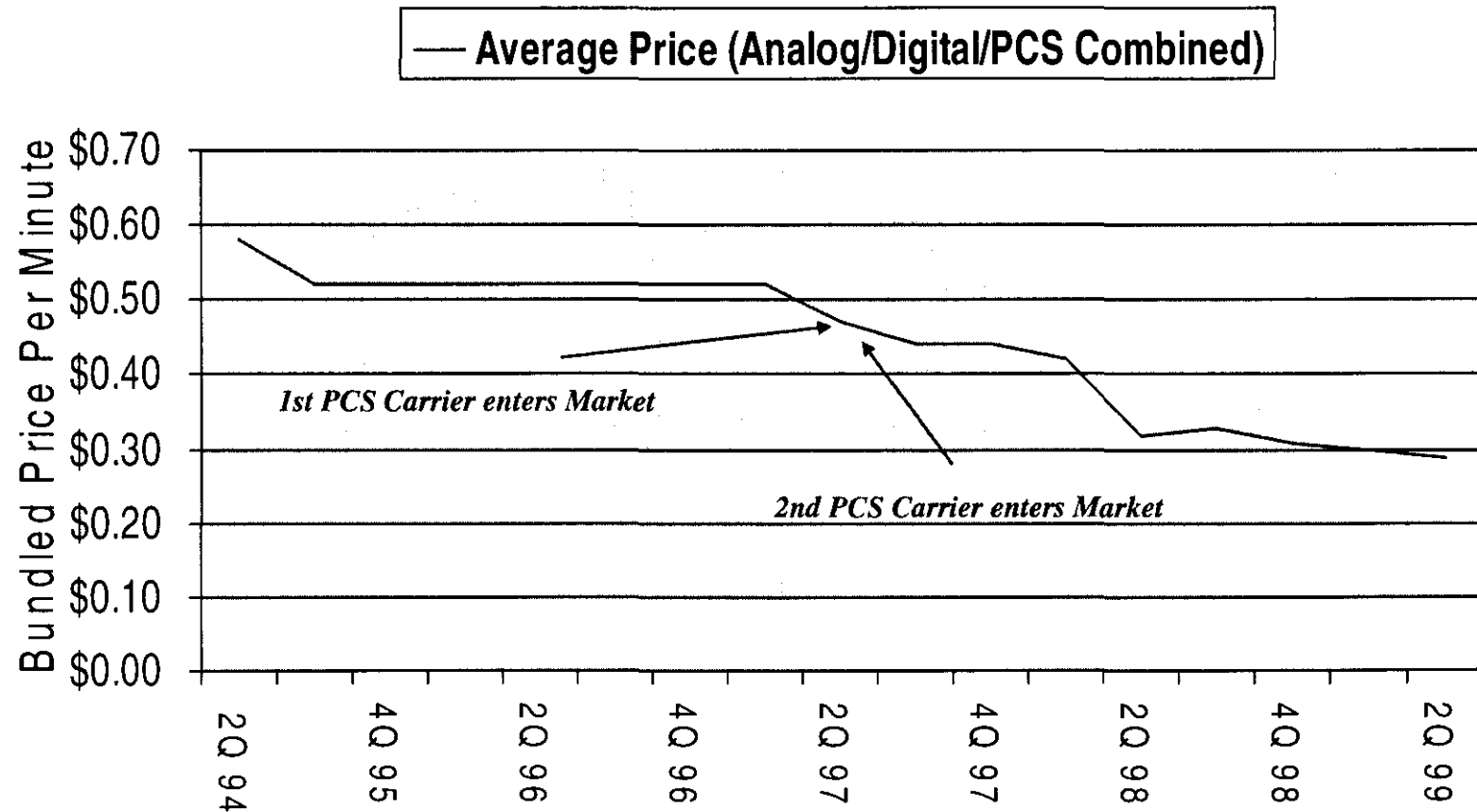
-Prices have not reacted strongly to PCS introduction in St. Louis

Average Prices in Baltimore Drop with PCS Entry



-Prices have fallen 20% since the introduction of PCS to Baltimore

Average Prices in Phoenix Drop with PCS Entry



-Prices have fallen 40% since the first 2 PCS carriers launched service